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NORTH AMERICAN ELECTRIC RELIABILITY COUNCIL

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By facsimile

May 9, 1997

The Honorable John D. Dingell, Ranking Member
Commerce Committee Democratic Office
564 Ford House Office Building
U.S. House of Representatives
Washington, D.C. 20515

Dear Congressman Dingell:

Thank you for the opportunity to address the effect of more competitive electricity markets on the bulk electric supply Interconnections or grids. Because NERC and the Regional Councils are responsible for electricity supply reliability in the United States, Canada, and a small portion of Mexico, we are dedicated to making this a smooth transition.

My answers to your questions are very brief, however, we are always available for more specific descriptions of our Initiatives or discussion on how the system works.

We look forward to being involved in the reliability part of the debate as your Committee considers comprehensive electricity restructuring legislation.

Sincerely,

Enclosure

NORTH AMERICAN ELECTRIC RELIABILITY COUNCIL

Answers to The Honorable John D. Dingell's Questions on Whether Congress Should Enact Legislation Concerning the Electricity Industry

**by Michehl R. Gent, President
May 8, 1997**

- 1. What, if any, problems has the North American Electric Reliability Council (NERC) observed with respect to reliability of the transmission system as electricity markets become more competitive? Do you have any concerns regarding the system's capabilities in light of certain states' adoption of retail competition? Would you have any other concerns if Congress were to mandate retail competition by a relatively near term date certain, such as 2000?**

In October 1995, the NERC Board of Trustees made a very strong commitment to ensure the continued reliability of the bulk electric supply as electric markets become more competitive. The outages in the Western Interconnection in the summer of 1996 punctuated the urgency of completing our Initiatives. NERC's initiatives to ensure continued transmission reliability in a more competitive environment are:

1. **Security Processes** — A group of 22 Security Coordinators has been established, located geographically and electrically across the United States and Canada, and will be equipped with the proper communications and analytical tools to ensure the moment-to-moment reliability of the bulk electric supply network in North America. These Security Coordinators will have sufficient real-time data to allow them to determine which transmission circuits are approaching their maximum loading and to take the appropriate action required for reliability purposes. The "tools" to be used by the Security Coordinator network will begin to be available in June 1997 and become increasingly more sophisticated and fully operational by the end of the year. The Security Coordinators will be authorized and capable of enacting transmission loading relief.
2. **Available Transfer Capability** — In cooperation with the FERC-mandated Open Access Same-time Information System (OASIS) program, NERC is reviewing and coordinating the calculation of Available Transfer Capability used in the OASIS node programs. Later in 1997, we will be experimenting with a prototype Transmission Reservation Scheme to allow users of the transmission system to schedule transactions on the paths on which the transactions will actually flow, rather than along contract paths.
3. **Standards** — The Engineering and Operating Committees of NERC have been charged with developing more specific and measurable standards for operating and planning the electric systems. This complicated standards process involves consideration of a variety of opinions while maintaining a timely delivery schedule. One of the most complex programs included in this Initiative will be the System Operator Certification program, where operators of the bulk electric system will be certified by NERC on their knowledge of NERC Policies and Standards.

4. Interconnected Operations Services — Deregulation and restructuring have made it necessary to separate transmission usage rates into their basic components. An independent industry group recently submitted a report to FERC outlining the necessary elements that need to be considered in a transmission use rates. NERC is using this report as a basis to examine its own Operating Policies for necessary changes. We anticipate several new Standards will evolve.

Several other projects are under way at NERC that do not neatly fall into these four Initiatives. We are maintaining a web site on the Internet, www.nerc.com, to keep everyone informed on these very complex, interwoven projects. By the end of this year, we should have a very clear understanding of the needed “next steps.”

NERC has no position on retail competition. If retail transactions have the same characteristics as wholesale transactions, it then becomes an issue of how many transactions can be handled effectively. Once the mechanics of retail competition or access are known, it will be easier to develop a process for handling these transactions and assessing the effects on reliability. Most everyone agrees that bulk electric supply system reliability should not be denigrated.

2. **In testimony before the Senate Energy Committee last month, Chair Moler of the Federal Energy Regulatory Commission recommended that Congress enact comprehensive electricity restructuring legislation and include provisions authorizing the Commission to enforce compliance with NERC reliability requirements. Do you agree, and do you have any recommendations for Congress regarding how any such legislation should be crafted?**

Although it is not a unanimous opinion, many in our organization are suggesting that some type of a “backstop” is needed to help NERC enforce compliance with reliability requirements when a participant refuses to follow the rules. Within NERC, opinions range from revoking some type of “license” issued either by FERC or the states, to a law that would require all participants to be a member of a Regional Council. Another approach is a “compact,” that would have all participants acknowledge by signature that they would follow NERC and the appropriate Regional Council reliability policies. And, finally, it has been suggested that a reliability requirement be included in FERC’s pro-forma transmission use tariff. Many government agencies, including the Federal Energy Regulatory Commission, Department of Energy, and the Nuclear Regulatory Commission, have shown interest in this subject.

3. **In the event Congress does not enact comprehensive electricity restructuring legislation, do you believe it needs to enact legislation to ensure future system reliability, or are current authorities and practices sufficient?**

This relates very closely to the answer to question number two. NERC has initiated a study that may lead to a “reinvention” of itself. Several models have drawn our attention, such as the health care industry, the securities industry with its self-regulating organization concept, and others. NERC is drafting the scope and will fund this independent study to suggest changes to our administrative structure, our governance, and other aspects of the way NERC currently does business. It is premature to suggest that a new “framework” is needed. If there are compelling reasons for change, Congress may indeed need to enact legislation to ensure future system reliability. On the other side of the coin, current authorities and practices are working. Most of the “need” centers on how to enforce the rules, while most of the discussion is on the proper governance for deciding the rules.

4. **As electricity markets become even more competitive, does NERC have any special concerns in connection with transmission services provided by public power and federal power marketing agencies? If so, do you have any recommendations on how to address such concerns?**

In NERC activities, we were unable to detect any differences among the various ownership segments until FERC, with our support, required a separation of operating and marketing functions. Many non-FERC jurisdictional entities have refused to separate, making our job of distributing commercially sensitive data more difficult. This could affect reliability, however, we need more experience to make that determination.

Any consideration Congress makes in this area should also include considerations of Canada and Mexico.

5. **What conclusions did NERC reach with respect to the transmission service interruptions last summer in California? Do you think these were isolated incidents, or might the experience be repeated?**

Conclusions from the interruptions in WSCC during the summer 1996 are lengthy. WSCC investigative teams made 64 recommendations to its member systems and they will be closely monitored for compliance. The incidents added new urgency to the processes and procedures under way at NERC, which include increased attention to dispatcher education and training, expanding study parameters to include voltage collapse considerations, a more intense seasonal assessment process for the upcoming summer and winter, and many other activities dealing with reporting and follow-up on "lessons learned" from the incidents themselves. Progress in these events are routinely reported to the Department of Energy.

We do not think these were isolated incidents, however, appropriate steps have been taken to assure this experience will not be repeated as long as we remain vigilant.